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Recent achievements in removing regulatory and procedural barriers to trade: experience from the Caucasus and the Balkans

Recent achievement in removing regulatory and procedural barriers to trade: experience from the Caucasus and the Balkans*

Note by the Secretariat

Summary

During its meeting of 12 July 2013, the Bureau of the Committee on Trade requested the secretariat to prepare background notes for informing discussions among member States about addressing regulatory and procedural barriers to trade in the UNECE region. The bureau advised that the background notes should highlight pertinent issues in sub-regional groups that have not yet been included in the UNECE's needs assessment studies.

To this end, the UNECE approached member States from the Balkans and the Caucasus with a proposal to discuss recent achievements in removing regulatory and procedural barriers to trade in the two regions at the sixth session of the Committee on Trade. It was agreed that the emphasis should be on bringing forward the experiences of individual countries, particularly in relation to challenges faced in implementing internationally recognised best practices.

This paper provides background information for supporting the Committee on Trade Discussions.

* This document was submitted late due to delayed inputs.

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I. Introduction

1. The Caucasus and Balkan regions are home to the bulk of transition economies, with the first comprising Armenia, Azerbaijan and Georgia. The second region, also referred to as Southeast Europe or Western Balkans, includes Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Montenegro, the Former Yugoslav Republic of Macedonia (FYROM), Serbia and UNMIK/Kosovo[1], in addition to Greece and the European side of Turkey. Other countries that are commonly considered as part of the Balkans are Romania, Slovenia, Moldova, and, to an extent, the Asian side of Turkey.

2. The development challenges facing the transition economies in the two regions vary by size, location and natural resource endowments. For example, Armenia, Azerbaijan, FYROM and Moldova are landlocked, so that participation in international trade is complicated by the additional transaction costs that the enterprises accrue for transportation. Azerbaijan stands out as the only country with rich endowments of oil and gas.

3. In addressing development challenges and opportunities, the Balkan and Caucasus transition economies have persistently followed trade-led development strategies. Individual countries pursued multifaceted market-opening bilateral and regional initiatives, which resulted in an array of trade agreements that vary considerably in terms of membership, sector coverage, movements of production factors, depth of tariff cuts and reduction of non-tariff measures, relationship with non-members, dispute settlement and decision-making processes.

4. For the Balkan transition economies, regional integration has been mainly pursued within the context of the Central European Free Trade Agreement (CEFTA). Considered as the main tool for supporting countries' preparations for accession to the European Union, CEFTA membership comprise Albania, Bosnia and Herzegovina, FYROM, Moldova, Montenegro, Serbia and UNMIK/ Kosovo.

5. Yet another strategic path pursued by the Balkan and Caucasus transition economies has been the consolidation of bilateral and regional agreements with multilateral initiatives. With the exception of Azerbaijan, Bosnia and Herzegovina, Serbia and Kosovo, all the Caucasus and Balkan transition economies are members of the World Trade Organisation (WTO).[2]

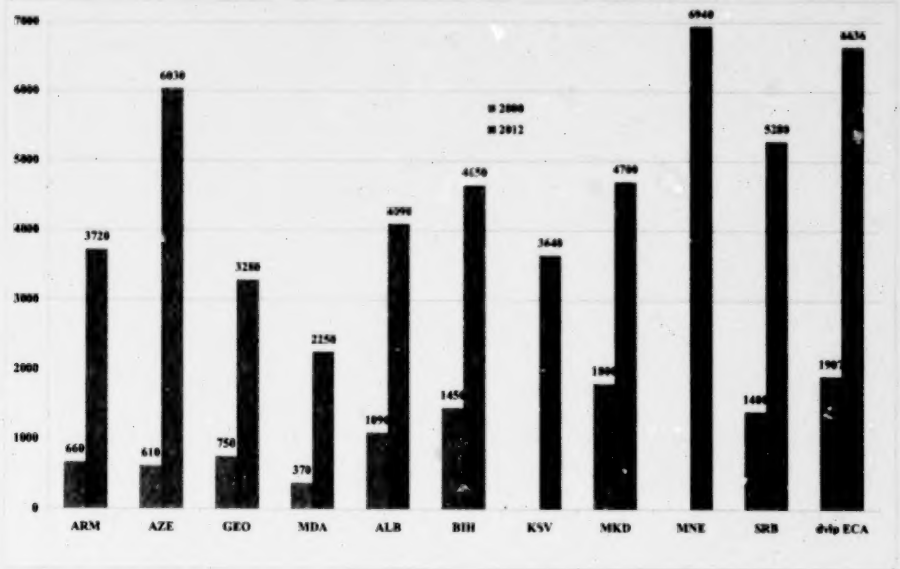
6. The above-mentioned efforts have borne fruit. All the transition economies registered impressive income growth following the dissolution of the Soviet Union in 1991, driven by large investment inflows and private consumption as the then newly independent countries forged ahead in establishing trade-driven market based economies. By 2012, nominal gross national income (GNI) per capita skyrocketed to new levels, so that it increased by a factor of 2.6 in Macedonia in relation to 2000 (i.e., reached 2.6 times its 2000 level), 3.2 in Bosnia and Herzegovina, 3.8 in Albania and Serbia, 4.4 in Georgia, 5.6 in Armenia, 6.1 in Moldova and 9.9 in Azerbaijan (Figure 1).[3]

[1] The territory administered by the United Nations Mission in Kosovo (UNMIK) is hereafter called shortly Kosovo. The designation used in this paper does not imply official endorsement or acceptance by the United Nations..

[2] Azerbaijan, Bosnia and Herzegovina, Serbia are WTO observers

[3] World Bank Development Indicators at: http://data.worldbank.org/indicator/NY.GNP.ATLS.CD

Figure 1: GNI per capita, Atlas method (current USD)



Source: World Bank Development Indicators[4]

Key: ARM - Armenia; AZE - Azerbaijan; GEO – Georgia; MDA- Moldova; ALB-Albania; BIH- Bosnia and Herzegovina; KSV-Kosovo; MKD – Macedonia; MNE-Montenegro; SRB-Serbia.

7. This positive trend masks disparities within the Balkans and the Caucasus. GNI per capita varies from a high of USD 6,940 in Montenegro to a low of USD 2,250 in Moldova. Moreover, with the exception of Montenegro, all the countries fall below the Europe and Central Asia (ECA) developing countries average of USD 6,656 (Figure 1).

8. These disparities reflect uneven progress in inducing structural transformation away from the production of primary goods. As shown in table 1, primary goods continue to dominate the exports of the Balkan and Caucasus transition economies. For example, hydrocarbons accounted for 94 per cent of Azerbaijan total exports in 2012. Ores and metals stood as the major export items originating from Montenegro (44.1 per cent of total exports in 2012), Armenia (with an increasing share that reached 33.7 per cent of total exports in 2012), and to a lesser extent, Georgia and Bosnia and Herzegovina. Food products dominate the exports of Moldova and Georgia, while fuels constituted a quarter of Albania's exports. Moreover, while several countries have registered increased contribution of manufacturing to exports, goods are predominantly of low value-added so that trade sector's contribution to income generation is undermined.

[4] See, World Bank Development Indicators at: http://data.worldbank.org/indicator/NY.GNP.ATLS.CD. Details on the World Bank Atlas method for estimating GNI per capita are available at: http://data.worldbank.org/about/country-classifications/country-and-lending-groups.

Table 2. The Balkans and Caucasus major exports in 2000-2012[5]

(as percentage of total exports)

Region	Economy		*All food items (SITC 0 + 1 + 22 + 4)*	*Agricultural raw materials (SITC 2 less 22, 27 and 28)*	*Ores and metals (SITC 27 + 28 + 68)*	*Fuels (SITC 3)*	*Pearls, precious stones and non-monetary gold (SITC 667 + 971)*	*Chemical products (SITC 5)*	*Machinery and transport equipment (SITC 7)*	*Other manufactured goods (SITC 6 + 8 less 667 and 68)*
FSU	ARM	2000	11.0	3.2	16.4	6.9	32.7	1.6	12.1	16.1
		2006	12.6	2.8	22.8	1.8	23.6	0.8	3.1	**32.6**
		2012	24.1	0.0	**33.7**	5.5	12.3	1.6	5.2	17.6
	AZE	2000	5.5	3.1	2.6	**79.0**	0.0	3.9	4.0	1.9
		2006	3.7	0.7	3.1	**87.6**	0.0	1.8	1.4	1.8
		2012	2.8	0.1	0.9	**94.0**	0.0	0.9	0.3	1.0
	GEO	2000	28.2	3.0	29.1	8.2	n/a	10.7	12.0	8.8
		2006	25.0	2.3	21.7	3.2	5.2	8.3	16.6	17.8
		2012	21.6	0.7	7.3	2.1	3.8	11.5	31.6	21.6
	MDA	2000	**47.1**	2.5	3.1	0.1	0.0	1.5	7.2	**38.5**
		2006	**38.0**	0.7	3.7	0.4	0.0	2.2	5.4	**49.5**
		2012	**37.2**	0.7	3.0	2.1	0.1	4.2	15.5	**37.2**
Western Balkans	ALB	2000	6.2	6.4	3.8	1.6	0.0	0.9	4.3	**76.7**
		2006	5.5	4.6	13.1	5.9	0.0	0.7	4.8	**65.3**
		2012	4.4	2.7	13.4	25.3	0.0	1.4	3.9	**48.9**
	BIH	2000	3.7	20.3	23.2	6.3	0.0	3.9	6.7	**36.0**
		2006	4.8	8.0	22.4	6.8	0.0	3.6	15.5	**38.9**
		2012	7.6	6.8	14.1	9.1	0.2	6.1	15.1	**41.1**
	MKD	2000	15.0	1.7	8.8	4.8	0.0	4.5	6.3	**58.8**
		2006	16.1	0.8	4.3	9.4	0.1	4.2	4.9	**60.3**
		2012	14.9	0.6	6.3	6.4	0.0	17.0	9.9	**44.9**
	MNE	2012	15.5	6.5	**44.1**	13.8	0.5	3.3	7.1	9.2
	SRB	2012	23.6	1.7	9.0	3.6	0.1	8.2	22.6	**31.3**
	SRB+ MNE	2000	17.3	5.8	15.9	0.3	0.0	8.7	12.8	**39.3**
		2006	16.8	2.5	16.5	2.4	0.1	9.5	10.4	**41.7**

[5] Source: UNCTADstat, http://unctadstat.unctad.org

9. With the exception of the oil and gas rich Azerbaijan, such a narrow export mix has been fuelling chronic trade deficits in all of the Balkans and Caucasus countries. Financed by official development assistance and other transfers, these deficits are becoming increasingly difficult to address in the wake of the global economic crisis that has created downward pressure on income growth. Among the hardest hit by the crisis have been Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia, which have been suffering from the decreased demand for their products, limited access to funding, reduced foreign direct investment inflows, and the dwindling of remittances from migrant workers.[6]

Table 3: Trade balance of goods and services in the Balkans and the Caucasus in 2003-2012[7]

(as a percentage of gross domestic product)

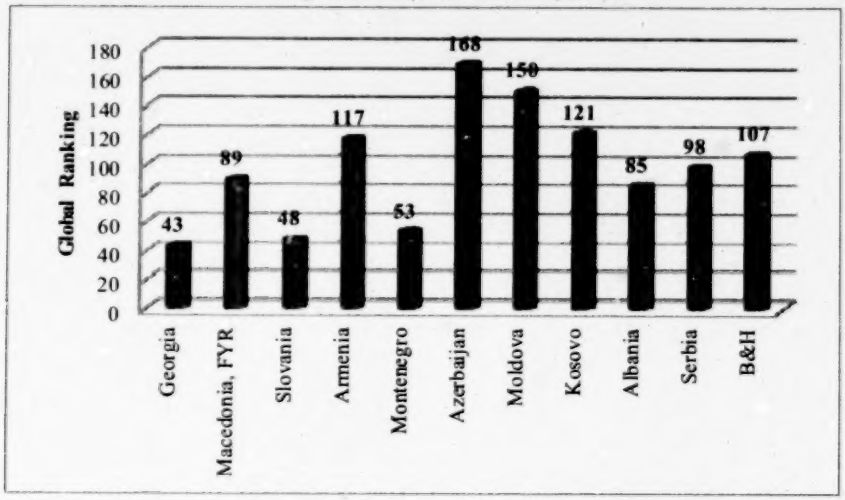
Country	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*
Armenia	-17.9	-15.6	-14.4	-15.9	-20.0	-25.6	-27.5	-24.5	-23.6	-24.2
Azerbaijan	-23.5	-23.9	10.0	27.7	39.6	42.3	28.5	33.6	32.3	28.1
Georgia	-14.6	-16.6	-17.8	-24.2	-26.7	-29.8	-19.2	-17.8	-18.6	-19.3
Moldova	-33.8	-31.3	-40.5	-46.6	-49.7	-52.8	-36.6	-39.3	-40.9	-40.6
Albania	-25.3	-21.8	-24.1	-24.1	-26.2	-26.6	-25.1	-21.4	-22.8	-17.8
Bosnia & Herzegovina	-52.9	-45.3	-39.5	-29.3	-36.5	-36.7	-22.7	-20.6	-24.0	-24.0
Kosovo	N/A	N/A	N/A	-36.7	-35.9	-38.0	-35.1	-36.1	-37.6	-34.4
Macedonia	-16.4	-20.1	-17.0	-17.8	-18.4	-25.3	-21.9	-18.7	-19.5	-22.4
Montenegro	-16.4	-16.1	-17.5	-29.7	-42.3	-54.5	-33.3	-28.4	-26.0	-23.7
Serbia	-19.5	-26.6	-21.0	-21.6	-24.2	-26.6	-17.6	-17.1	-16.0	N/A
ECA developing	-3.7	-4.3	-4.4	-5.1	-6.0	-5.8	-2.2	-3.5	-4.5	-4.5

10. It is against this background that the Balkan and Caucasus transition economies are exhibiting renewed efforts to address weaknesses in the overall regulatory and institutional set up. While the broad picture emerging from the World Bank's Ease of Doing Business is one of improvement, there remains room for improvement, particularly in the area of trade facilitation. As shown in figure 2, most of the countries have low ranking on the "trading across borders" indicator, with Azerbaijan accorded the lowest rank (168 out of 189 countries in 2014).

[6] See, for example, Western Balkans Investment Framework (2013), "Outlook for Macroeconomic Development in the Western Balkans: IFI Coordination Office", Data update May 2013.

[7] Calculations based on the World Bank World Development Indicators, available online at: http://api.worldbank.org/v2/en/indicator/ne.exp.gnfs.zs?downloadformat=excel

Figure 2. Balkans and Caucasus ranking on ease of doing business trading across borders indicator (2014)



11. As shown in table 3, exporting from Azerbaijan requires 9 documents, an average of 28 days and entails an average cost of $3,540 per container, which exceed the Europe and Central Asia Region and Organisation for Economic Co-operation and Development (OECD) averages. For countries with high rankings, such as Georgia, trade is undermined by weak quality control infrastructure. Traders accrue additional costs as their products are often subjected to re-testing in export markets.

Table 3. The Balkans and Caucasus regions raking on the World Bank ease of doing business trading across borders indicator (2004-2014)

Region	*Country*	*Year*	*Documents to export (number)*	*Time to export (days)*	*Cost to export (US$ per container)*	*Documents to import (number)*	*Time to import (days)*	*Cost to import (US$ per container)*
FSU	ARM	2004	..	..	..	..	..	..
		2009	6	33	1,816	8	24	2,091
		2014	5	16	1,885	8	18	2,175
	AZE	2004	..	..	..	..	..	..
		2009	9	34	3,515	11	36	3,420
		2014	9	28	3,540	11	25	3,560
	GEO	2004	..	..	..	..	..	..
		2009	8	12	1,380	7	14	1,340
		2014	4	9	1,355	4	10	1,595
	MDA	2004	..	..	..	..	..	..

Region	*Country*	*Year*	*Documents to export (number)*	*Time to export (days)*	*Cost to export (US$ per container)*	*Documents to import (number)*	*Time to import (days)*	*Cost to import (US$ per container)*
		2009	7	32	1,765	8	35	2,090
		2014	7	32	1,545	8	35	1,870
Western Balkans	ALB	2004	..	..	..	..	..	..
		2009	7	21	770	8	22	775
		2014	7	19	745	8	18	730
	BIH	2004	..	..	..	..	..	..
		2009	8	17	1,090	8	13	1,035
		2014	8	16	1,260	8	13	1,200
	KSV	2014	8	15	1,775	7	15	1,810
	MKD	2004	..	..	..	..	..	..
		2009	6	15	1,315	8	13	1,325
		2014	6	12	1,376	8	11	1,380
	MNE	2009	7	14	940	6	14	995
		2014	6	14	985	5	14	985
	SRB	2004	..	..	..	..	..	..
		2009	6	13	1,398	7	16	1,659
		2014	6	12	1,455	7	15	1,760
Europe and Central Asia		2014	7	25	2,109	8	26	2,339
OECD		2014	4	11	1,070	4	10	1,090

II. Discussion points

12. The session is meant to serve as an executive forum for exchanging views and experiences in implementing reform measures for reducing regulatory and procedural barriers to trade in goods. Consistent with the UNECE Buy-Ship-Pay (B-S-P) reference model,[8] the discussion will focus on the whole gamut of business processes (i.e., logically connected activities by traders) and regulatory activities (i.e., logically connected activities by state entities) associated with the movement of goods and related information across

[8] UNECE reference models in consultation with stakeholders from UNECE member states representing public authorities, the private sector, and academia.

borders from buyer to seller across the international trade supply chain.[9] This includes commercial processes (associated with the establishment of commercial contracts); transport (associated with the arrangement of inland and cross-border transportation of goods); regulatory (associated with regulatory activities); and, financial processes (associated with the payment for purchased goods). These processes correspond to the following 10 Chapters of the international non-tariff measures classification : [10]

- Sanitary an phytosanitary measures
- Technical barriers to trade
- Pre-shipment inspection and other formalities
- Price control measures, including additional taxes and charges
- Finance measures
- Measures affecting competition
- Distribution restrictions
- Government procurement restrictions
- Rules of Origin
- Export-related measures

[9] An international trade supply chain refers to a global network of business entities involved in the procurement, manufacturing, distribution and payment activities for products that are destined for export/import

[10] In particular the classification developed by the United Nations Conference on Trade and Development and the Multi Agency Support Team (UNCTAD- MAST). The classification includes 16 chapters in total.